

**REPORT OF THE AUDIT OF THE  
FORMER GALLATIN COUNTY  
SHERIFF**

**For The Period January 1, 2002  
Through January 5, 2003**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**FORMER GALLATIN COUNTY SHERIFF**

**For The Period January 1, 2002**  
**Through January 5, 2003**

The Auditor of Public Accounts has completed the former Gallatin County Sheriff's audit for the period January 1, 2002 through January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

Excess fees increased by \$26,709 from the prior calendar year, resulting in excess fees of \$26,709 as of January 5, 2003. Revenues increased by \$35,966 from the prior year and disbursements increased by \$9,257.

**Report Comment:**

- Lacks Adequate Segregation Of Duties

**Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable George W. Zubaty, Gallatin County Judge/Executive

Honorable Clifford Higgins, Former Gallatin County Sheriff

Honorable Nelson Brown, Gallatin County Sheriff

Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former Sheriff of Gallatin County, Kentucky, for the period January 1, 2002 through January 5, 2003. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former Sheriff for the period January 1, 2002 through January 5, 2003, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable George W. Zubaty, County Judge/Executive  
Honorable Clifford Higgins, Former Gallatin County Sheriff  
Honorable Nelson Brown, Gallatin County Sheriff  
Members of the Gallatin County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 10, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
June 10, 2003



GALLATIN COUNTY  
CLIFFORD HIGGINS, FORMER SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Period January 1, 2002 Through January 5, 2003

Receipts

State Fees For Services:

|                          |               |           |
|--------------------------|---------------|-----------|
| Return of Fugitives      | \$ 5,561      |           |
| Court Claims             | 3,944         |           |
| Sheriff Security Service | 9,466         |           |
| KLEFPF                   | <u>11,669</u> | \$ 30,640 |

Circuit Court Clerk:

|                          |       |
|--------------------------|-------|
| Sheriff Security Service | 9,295 |
|--------------------------|-------|

|              |        |
|--------------|--------|
| Fiscal Court | 30,000 |
|--------------|--------|

|                                 |     |
|---------------------------------|-----|
| County Clerk - Delinquent Taxes | 570 |
|---------------------------------|-----|

|                               |         |
|-------------------------------|---------|
| Commission On Taxes Collected | 139,920 |
|-------------------------------|---------|

Fees Collected For Services:

|  |               |        |
|--|---------------|--------|
| Auto Inspections                         | \$ 3,300      |        |
| Serving Papers                           | 12,457        |        |
| Carrying Concealed Deadly Weapon Permits | 2,760         |        |
| Tax Fee and Late Fee                     | <u>23,182</u> | 41,699 |

Other:

|               |       |
|---------------|-------|
| Miscellaneous | 1,921 |
|---------------|-------|

|                 |       |
|-----------------|-------|
| Interest Earned | 1,176 |
|-----------------|-------|

Borrowed Money:

|                   |               |
|-------------------|---------------|
| State Advancement | <u>78,636</u> |
|-------------------|---------------|

|                |            |
|----------------|------------|
| Total Receipts | \$ 333,857 |
|----------------|------------|

The accompanying notes are an integral part of the financial statement.

GALLATIN COUNTY  
 CLIFFORD HIGGINS, FORMER SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Period January 1, 2002 Through January 5, 2003  
 (Continued)

Disbursements

Operating Disbursements:

Personnel Services-

|                    |    |               |            |
|--------------------|----|---------------|------------|
| Deputies' Salaries | \$ | 107,686       |            |
| Part-Time Salaries |    | <u>19,467</u> | \$ 127,153 |

Employee Benefits-

|                                  |  |  |        |
|----------------------------------|--|--|--------|
| Employer's Share Social Security |  |  | 13,548 |
|----------------------------------|--|--|--------|

Contracted Services-

|             |  |  |       |
|-------------|--|--|-------|
| Advertising |  |  | 1,420 |
|-------------|--|--|-------|

Materials and Supplies-

|                               |    |            |       |
|-------------------------------|----|------------|-------|
| Office Materials and Supplies | \$ | 1,656      |       |
| Uniforms                      |    | <u>614</u> | 2,270 |

Auto Expense-

|          |  |  |        |
|----------|--|--|--------|
| Gasoline |  |  | 14,061 |
|----------|--|--|--------|

Other Charges-

|  |    |              |        |
|--|----|--------------|--------|
| Postage                                  | \$ | 2,442        |        |
| Bond                                     |    | 389          |        |
| Telephone                                |    | 3,316        |        |
| Computer Expense                         |    | 500          |        |
| Transport Prisoners                      |    | 1,081        |        |
| Carrying Concealed Deadly Weapon Permits |    | 1,910        |        |
| Law Enforcement                          |    | 492          |        |
| Miscellaneous                            |    | <u>2,118</u> | 12,248 |

The accompanying notes are an integral part of the financial statement.

GALLATIN COUNTY  
 CLIFFORD HIGGINS, FORMER SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Period January 1, 2002 Through January 5, 2003  
 (Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Debt Service:

|                   |                  |  |
|-------------------|------------------|--|
| State Advancement | <u>\$ 78,636</u> |  |
|-------------------|------------------|--|

|                     |  |                   |
|---------------------|--|-------------------|
| Total Disbursements |  | <u>\$ 249,336</u> |
|---------------------|--|-------------------|

|              |  |           |
|--------------|--|-----------|
| Net Receipts |  | \$ 84,521 |
|--------------|--|-----------|

|                         |  |               |
|-------------------------|--|---------------|
| Less: Statutory Maximum |  | <u>57,812</u> |
|-------------------------|--|---------------|

|                                 |  |           |
|---------------------------------|--|-----------|
| Excess Fees Due County for 2002 |  | \$ 26,709 |
|---------------------------------|--|-----------|

|  |           |  |
|--|-----------|--|
| Payments to County Treasurer - February 24, 2003 | \$ 26,350 |  |
|--|-----------|--|

|   |            |               |
|---|------------|---------------|
| Payments to County Treasurer - March 10, 2003 | <u>359</u> | <u>26,709</u> |
|---|------------|---------------|

|                                    |  |                    |
|------------------------------------|--|--------------------|
| Balance Due at Completion of Audit |  | <u><u>\$ 0</u></u> |
|------------------------------------|--|--------------------|

The accompanying notes are an integral part of the financial statement.

GALLATIN COUNTY  
NOTES TO FINANCIAL STATEMENT

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at January 5, 2003.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year.

GALLATIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
January 5, 2003  
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of January 5, 2003, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former Sheriff's agent in the former Sheriff's name, or provided surety bond which named the former Sheriff as beneficiary/obligee on the bond.

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COMMENT AND RECOMMENDATION





GALLATIN COUNTY  
CLIFFORD HIGGINS, SHERIFF  
COMMENT AND RECOMMENDATION

For The Period January 1, 2002 Through January 5, 2003

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties.

Because of the limitations of the Sheriff's office, it appears that only compensating controls may achieve a proper segregation of duties. Compensating controls require the Sheriff's direct supervision over receipts and disbursements and includes, but is not limited to, the following:

- 1) Cash periodically recounted and deposited by the Sheriff.
- 2) Surprise cash counts by the Sheriff.
- 3) Periodic reconciliation by the Sheriff of daily collection reports to the receipts ledger and deposit slip.
- 4) Reconciliation by the Sheriff of monthly collection reports to the receipts ledger and disbursements ledger.
- 5) Requiring dual signatures on checks with one being that of the Sheriff.
- 6) Periodic examination by the Sheriff of payroll checks prepared by another employee and delivering said checks.
- 7) Examination by the Sheriff for proper documentation of other disbursement checks prepared by another employee.
- 8) Disbursements mailed by the Sheriff.
- 9) Requiring employees to be cross-trained.
- 10) Requiring employees to take mandatory vacations.
- 11) Bank reconciliations prepared or reviewed by the Sheriff.
- 12) Publishing the financial statements.

We recommend that these controls be performed in order to offset a lack of adequate segregation of duties. Documentation of these controls should be maintained for the auditor in order to verify their existence.

*Former Sheriff Clifford Higgins' Response:*

*None.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
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Members of the Gallatin County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the former Gallatin County Sheriff for the period January 1, 2002 through January 5, 2003, and have issued our report thereon dated June 10, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Gallatin County Sheriff's financial statement for the period January 1, 2002 through January 5, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Gallatin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
June 10, 2003

